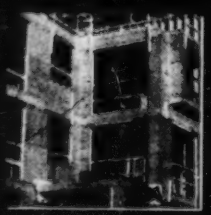
B U I L D I N G B C

Homeowner
Protection Office

2001 | 2002

Annual Report



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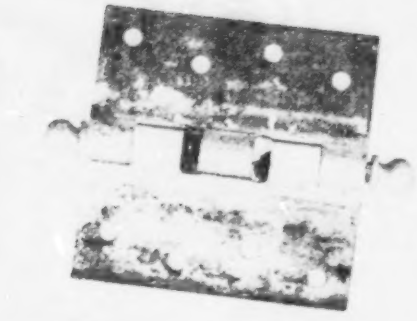

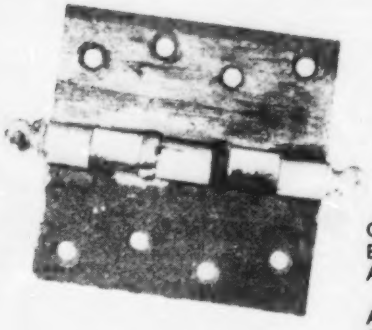

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Second photo on cover courtesy of HouseWorks Building Science Inc.

May 21, 2002

The Honourable Iona Campagnolo
Lieutenant-Governor of the Province of British Columbia

As the Minister of Community, Aboriginal and Women's Services and the Minister Responsible for Housing it is my honour to present to you the fourth annual report of the Homeowner Protection Office covering the period of April 1, 2001 through March 31, 2002.

Sincerely,

George Abbott

George Abbott
Minister of Community, Aboriginal and Women's Services and
Minister Responsible for Housing

May 21, 2002

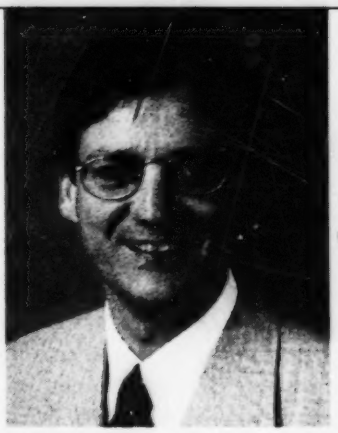
Honourable George Abbott
Minister of Community, Aboriginal and Women's Services and
Minister Responsible for Housing
Province of British Columbia

Minister,

It is my pleasure, as the Chairperson of the Homeowner Protection Office, to submit to you the HPO's annual report for the year ending March 31, 2002.

Sincerely,

Bob de Faye
Chairperson



Dan Maxwell,
Acting Chief
Executive Officer

achieving our goals

The Homeowner Protection Office (HPO) continued to make notable progress this year in our mission to bring about a long-term improvement in the quality of residential construction, increase consumer protection for homeowners and help restore confidence in the residential construction industry.

Since the office's inception in 1998, we have more than achieved our research and education goal to faciltate and expand British Columbia focused research and education by using our investments to leverage substantial contributions from other partners. This year our financial commitments to research and education totaled about $200,000 while our partners contributed an additional $705,000 to these programs. Two of the most important of these projects include the very successful Building Envelope Research Symposium attended by 430 professionals and the much-anticipated Building Envelope Solutions Theory and Practice (BEST) course which provides hands-on training for the construction of building envelopes. Going forward, we will continue to find more ways to ensure that our research findings are put into practice through new training programs, the development of best practice guides and our participation on national building code committees.

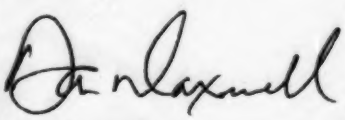
This past year, mortgage rates fell to forty-year lows. Coupled with the depletion of the inventory of new homes, these low mortgage rates have brought about significant increases in new construction, particularly in the multi-unit sector. The HPO has witnessed heightened licensing activity during recent months and the outlook for the upcoming year is very good. We have continued to achieve our goal of having a responsive licensing system by providing our licensing decisions in fewer than five days. As well, both homebuyers and builders are well served by the five private-sector home warranty insurance providers that operate in the marketplace.

We continued to meet the demand for new no-interest repair loans which, for the first time since the program started, has begun to decrease. We have passed the half-way mark in the repair of the estimated 65,000 leaky homes in British Columbia. We believe that 25,000 of these affected homes have yet to come forward. Over the past year, the up-take on the PST Relief Grant Program for completed building envelope renovations steadily continued as repairs were completed to more leaky homes.

As of the annual report date, March 31, 2002, the HPO had not gone through the provincial Core Services Review process. Therefore, the information contained in this annual report and financial statements indicate the status quo and do not reflect any service or delivery changes that may, or may not, transpire as a result of the decisions made by the Core Review and Deregulation Task Force chaired by the Premier.

Together with the residential construction industry, we look forward with some confidence to the start of a period of prolonged increases in housing starts. Consumers are once again prepared to purchase new homes and, in particular, condominiums now that they can see good quality construction that is combined with the strongest construction defect warranty in Canada.

Sincerely,



Dan Maxwell
Acting Chief Executive Officer

The Homeowner Protection Office (HPO) is a provincial Crown corporation established under the *Homeowner Protection Act (Act)*. The *Act* was passed on July 28, 1998 in response to the need to introduce basic consumer protection legislation and regulatory improvements within the residential construction sector. The mandate of the HPO is to strengthen consumer protection for buyers of new homes and improve the quality of residential construction in British Columbia. The HPO is located in downtown Vancouver and officially opened on October 1, 1998.

The HPO is responsible for:

- Administering the residential builder and building envelope renovator licensing system province-wide
- Establishing the framework for and monitoring the mandatory, third-party home warranty insurance system
- Maintaining a research and education function to benefit the residential construction industry, homeowners and homebuyers, and
- Administering the Homeowner's Reconstruction Loan Program and PST Relief Grant for owners of leaky homes.

Strategic Foundation

The vision of the HPO is to be a responsive Crown corporation, leading an improvement in the quality of residential construction and an increase in homeowner protection in British Columbia. Our mission is to restore confidence in B.C.'s residential construction industry. Our values include a commitment to: integrity, fairness, responsiveness, accountability and teamwork.

Our Clients

Key clients of the HPO are homebuyers, homeowners (particularly owners of leaky homes), developers, residential builders and building envelope renovators. In undertaking its activities the HPO also works closely with homebuilding organizations, warranty insurance providers, architects, engineers, building officials, educational institutions, research organizations, property managers, the legal community, governments, including local governments and the Canada Mortgage and Housing Corporation (CMHC), real estate professionals and financial institutions.

restoring

confidence

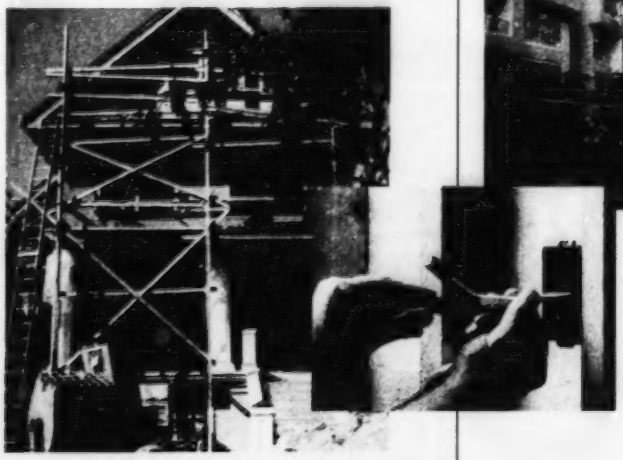
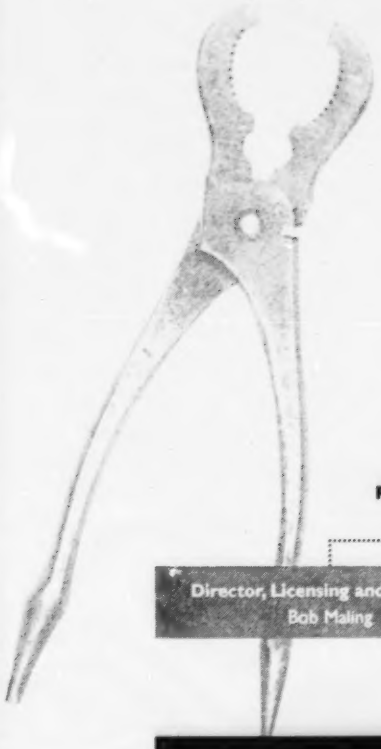


Photo courtesy of RDH Building Engineering Ltd.

in the residential construction

industry



Minister of Community, Aboriginal and Women's Services

Board of Directors

Bob de Faye, Deputy Minister, Ministry of Community, Aboriginal and Women's Services (Chair)

Kaye Melliship, Assistant Deputy Minister, Ministry of Community, Aboriginal and Women's Services

Shayne Ramsay, CEO, BC Housing

Acting Chief Executive Officer
Dan Maxwell

Provincial Advisory Council*

Director, Licensing and Registrar	Acting Director, Research and Education	Chief Operating Officer
Bob Maling	Bob Maling	Dan Maxwell

Key Responsibilities of HPO Officers

Director, Licensing and Registrar

- license residential builders and building envelope renovators
- maintain a registry of licensed builders
- ensure compliance with licensing standards and regulations
- collect license fees
- monitor the third-party home warranty insurance system

Director, Research and Education

- support building science research
- support consumer and industry education
- advise government and City of Vancouver on amendments to building code
- support the establishment of guidelines for "best practices" for building

Chief Operating Officer

- administration of HPO
- manage the Reconstruction Fund and PST Relief Grant
- financial management of HPO including annual financial statements
- Board administration

* The *Homeowner Protection Act* provides for the establishment of a Provincial Advisory Council (PAC) on Homeowner Protection, which was formed in 1999. PAC provides policy advice to the HPO CEO regarding residential construction in B.C., research and education initiatives, and consumer information programs. The 14-member council includes representatives from consumer groups, architects, engineers, builders and developers, home warranty insurance companies, labour and local governments. PAC members represent the following organizations:

Architectural Institute of B.C.

B.C. Construction Association

Union of British Columbia Municipalities

Canadian Home Builders' Association of B.C.

Association of Professional Engineers and Geoscientists

Condominium Home Owners' Association – 2 representatives

City of Vancouver

Home Warranty Insurance Company

Urban Development Institute

Building Officials Association of B.C.

Independent Contractors and Businesses Association of B.C.

B.C. Federation of Labour – 2 representatives
- International Union of Painters
- Allied Trades and United Association of Plumbers and Pipefitters

The HPO is responsible for licensing residential builders, research and education programs to benefit the industry and consumers, and providing financial assistance to owners of leaky homes. These programs are delivered with a staff of 37 employees. With the exception of the loans program, the HPO continues to be self-sustaining on a year-over-year basis from its own revenues which primarily consist of builder license fees. For the loans program, the HPO will be self-sustaining over a 10 to 15 year period.

This year's Building Envelope Research Symposium and the Building Envelope Solutions Theory and Practice course helped ensure that the latest research results were transferred to those who can apply the knowledge on-site. Topics of research studies completed and underway included high-rise envelope performance, water penetration resistance of windows and earthquake testing of rainscreen stucco wall systems. Sharing the results of these studies facilitates the improvement of residential construction quality.

The number of residential builders licensed to construct new homes in British Colombia increased 25% over last year resulting in 2,881 licensed builders on the annual report date. This increase in licensing activity indicates optimism in the residential construction industry as existing housing inventories are sold and demand for new homes increases due to the lowest mortgage rates in forty years. Despite the 37% increase in residential construction, the number of owner-builder exemptions from licensing and home warranty insurance decreased by 18% to 2,060 when compared with last year. This is one of the positive results of increased HPO compliance efforts to limit abuse of this exemption.

The number of licensed building envelope renovators, however, remained stable at a healthy number of 74, which appears adequate to meet the demand. This year the HPO collected $2.1 million in licensing fees from residential builders and building envelope renovators that helped fund all program areas of the office.

The HPO's financial assistance programs for owners of leaky homes continued to prevent potential foreclosures which might have occurred due to the cost of building envelope repairs. This year, the HPO approved $57.2 million in no-interest repair loans representing over 2,000 homes in British Columbia. This amount, although quite considerable, represents a decrease when compared with the previous year. The trend for the demand for new Homeowner's Reconstruction Loans shows a peak in 2000-2001. However, the need for the program is anticipated to continue as the remaining estimated 25,000 homes affected are repaired and homeowners with existing loans are served over time. During the last year, the HPO also participated in 116 on-site strata meetings representing 5,800 homes to educate homeowners about the financial assistance programs available.

PST Relief Grants approved by the office increased this fiscal year as more repairs to leaky homes were completed. Grants approved totaled $2.2 million representing 5,644 homes.

Over the past year, the HPO continued to successfully deliver its programs and has met the targets set out on our recently released Service Plan. We have met the growing licensing needs, provided consistent service to owners of leaky homes and have made noteworthy progress in our research and education projects. Indications of increased consumer confidence and improved residential construction are becoming evident in the marketplace.

self-sustaining

on a year-to-year

basis

Photo courtesy of RDH Building Engineering Ltd.

Mission

- **Increase consumer protection for homeowners and homebuyers**
- **Improve the quality of residential construction in British Columbia**

Inputs

Financial resources, trained staff, facilities

Programs	**Research and Education**	**Licensing and Warranties**	**Financial Assistance**
Strategies and Activities	• Building science research projects initiated • Technology transfer to construction industry • Consumer information disseminated • Provincial Advisory Council on Homeowner Protection formed	• Introduction, compliance and monitoring of licensing and warranty insurance regulations for new residential construction and building envelope renovations • Mediation regulations for residential construction disputes implemented • Education requirements planned for licensing	• No-interest repair loan applications received • PST Relief Grant applications received for completed building envelope repairs • Advice on financial assistance provided to homeowners
Outputs	• Building science studies underway and completed • Publications and seminars for consumers and industry available • Provincial Advisory Council advising the HPO • Repair process seminars attended by 1,400+ people • 453 on-site sessions for strata owners given • 65,800+ people served by 1-800 line • 224,800+ visits to Web site	• 2,881 residential builders and 74 building envelope renovators licensed • Public registry of builders and renovators on Web site • 38,862 new home starts • Increased compliance • Public list of new homes planned	• 6,862 homeowner loans approved totaling $158.6 million • 32 co-operative housing loans approved (1,848 units) totaling $57.7 million • $4.4 million in PST Relief Grants approved
Outcomes Immediate	• Consumer information and assistance available • Research projects set framework for construction improvements • Increased awareness of construction and consumer protection issues	• Creation of a more "level playing field" for builders • Builders must meet minimum standards • Consumers protected by an insurance product • Insurance companies require financial stability and quality construction from builders • Construction disputes mediated	• Homeowners keep homes who otherwise might have lost them • Availability of financial assistance facilitates more rapid approval of repairs • Only viable, long-term repair solutions selected
Intermediate (Goals)	• Consumers able to make more informed decisions • Results of building science studies communicated to industry—construction quality increases • Reduced occurrence of construction defects	• Increasing licensing standards improves quality of construction • Greater number of consumers benefit from licensing and warranty insurance requirements • Homes with premature building envelope failures repaired—values adjusted	• Increased value in repaired homes • Fewer repair loan applications anticipated over time • Loans repaid

Ultimate (Strategic objectives)

- **Homeowners and homebuyers better protected**
- **Improvement in the quality of residential construction**
- **Consumer confidence in residential construction industry restored**

The Homeowner Protection Office's (HPO) mandate includes a research and education function that assists both the residential construction industry and consumers. Research and education in the area of building science is undertaken to bring about the long-term goal of improving the quality of residential construction in British Columbia. Consumer related initiatives are also undertaken to help homebuyers make more informed purchasing decisions and owners of leaky homes better manage the repairs to their homes.

The Provincial Advisory Council on Homeowner Protection, a 14-member advisory board consisting of representatives from consumer groups, architects, engineers, builders and developers, home warranty insurance companies, labour and local governments, provides input on the research and education priorities of the HPO.

Strategic Shift

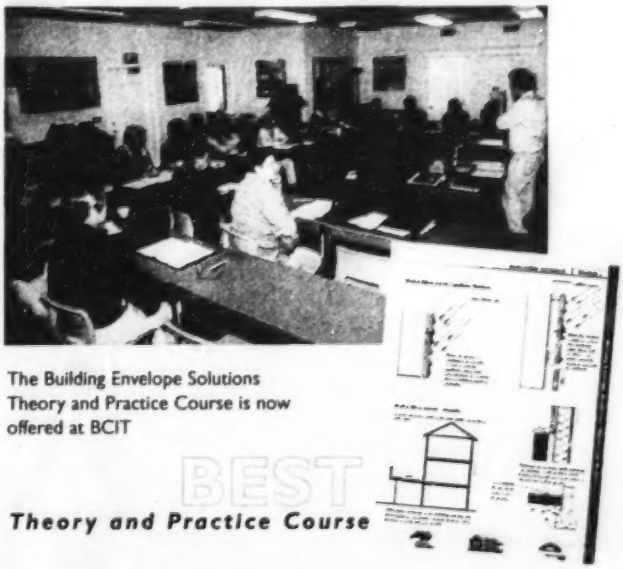
The beginning of 2002 marks a shift in the research and education focus at the HPO. Previously, the office primarily focused its attention on building envelope research and education; however, the HPO will now begin to devote a greater portion of its resources to issues related to home warranty insurance and improving residential construction quality. A decrease in attendance at our previously well-attended public Condominium Repair Process Seminars indicated that the saturation point for these was reached. Therefore, in recognition that leaky condos remain an important issue, the office will now rely on our on-going, evening, on-site strata meetings as the means to educate strata owners about the repair process and available financial assistance.

Research and Education for the Industry

This year the HPO had 11 building science research and education projects completed, on-going and underway *(see charts on pages 10 and 11)*. These projects represent an HPO financial commitment of about $200,000. We partner with industry, other levels of government and educational institutions to leverage our research and education initiatives and ensure the most efficient use of available resources. We were successful in partnering with other organizations which resulted in a total commitment of $905,000 to fund these building science projects which can lead to a long-term improvement in the quality of residential construction for British Columbia.

This year we were pleased to introduce two programs which facilitate the transfer of the most up-to-date building science knowledge to those who will use this information in the field.

The HPO, in partnership with the Canada Mortgage and Housing Corporation and the Canadian Home Builders' Association of B.C., developed the Building Envelope Solutions Theory and Practice (BEST) course. The course is currently being delivered by the British Columbia Institute of Technology and is designed to provide participants with more background knowledge on how durable building envelopes are constructed. Specifically, it offers practical knowledge and skills to build and restore wood-frame building envelopes.



The Building Envelope Solutions Theory and Practice Course is now offered at BCIT

Courses include: Building Science; Rain Penetration Control for Walls and Sheathings, Membranes and Flashings; Construction and/or Restoration of Building Envelopes to Resist Water Penetration plus many others.

In an effort to disseminate recent building science research results to the residential construction industry, the HPO with the Canada Mortgage and Housing Corporation, the Urban Development Institute, the B.C. Building Envelope Council and the Building Envelope Research Consortium, organized B.C.'s first Building Envelope Research Symposium. This symposium was attended by 430 residential construction industry representatives who can apply this new knowledge to the construction of new and remediated building envelopes. Topics included: the latest research results in high-rise building envelopes, quality assurance for developers and designers, and building envelope rehabilitation.

Consumer Education and Information

The HPO concluded its series of free public Condominium Repair Process Seminars this year. This program provided useful information on the process to repair a leaky condo, licensing and warranty insurance requirements for building envelope renovations, financial assistance available, technical information and legal considerations for over 1,400 people in the coastal climate area.

The HPO continues to participate in on-site strata meetings at individual leaky buildings as a means of providing information. Usually held in the evenings to accommodate the schedules of strata members, these meetings provide personalized service to homeowners in need of assistance. This year, the HPO participated in 116 on-site strata meetings.

We also continue to offer several publications designed to assist both homebuyers and owners of leaky homes, including:

- *Options for Resolving Residential Construction Disputes* which provides home owners and the residential construction industry with information on negotiation, mediation, arbitration and litigation.
- *Managing Major Repairs: A Condominium Owner's Manual* – The HPO, in cooperation with the former Ministry of Municipal Affairs and Canada Mortgage and Housing Corporation, produced this 100-page guide which provides condominium owners with step-by-step detailed information on the process to repair a leaking building. The Urban Development Institute and the Condominium Home Owners' Association also assisted in the development and review of the guide.
- *Buying a New Home: A Consumer Protection Guide* – This guide provides information and guidance to prospective buyers. Topics include information on home warranties, residential builder licensing, and the role of lawyers and lenders in transactions.
- Bulletins on a variety topics are available including: home warranties, owner-built homes, the Reconstruction Loan and PST Relief Grant programs, and requirements for building envelope renovations.

In a continued effort to assist homeowners, homebuyers and other residential construction industry representatives, the HPO operates a toll-free information line. This year the HPO assisted 28,597 callers, totaling over 65,800 calls since the office opened in 1998. In addition the HPO's Web site also provides visitors with useful information about our programs.

consumer information

Building Science Projects On-going and Underway April 1, 2001 – March 31, 2002

Project/Description	HPO Financial Contribution	Total Project Cost *	Partners	Status & Additional Info
Building Envelope Research Consortium (BERC) The HPO helps co-fund BERC and its research projects as well as participates on the steering committee.	**$5,000**	$40,000	Industry and government representatives	Ongoing
BETH Project (Building Envelope Test Hut) Phase II Feasibility Study This project involves carrying out more detailed planning for the establishment of a research test hut that would be useful in providing moisture management performance data for various cladding assemblies and details under real-life conditions.	**$15,000**	$60,000	British Columbia Institute of Technology (BCIT), Canada Mortgage and Housing Corporation (CMHC), Forintek	Underway
Building Envelope Research Bibliography The purpose is to gather relevant studies on building envelope research and produce an annotated bibliography.	**$10,000**	$10,000	University of British Columbia	Underway
Water Penetration Resistance of Windows The purpose is to review moisture performance issues related to windows in low-rise and high-rise buildings, addressing manufacturing, building design, installation, maintenance and regulatory standards.	**$10,000**	$125,000	Canada Mortgage and Housing Corporation (CMHC), BC Housing, National Research Council of Canada (NRC)	Underway
Earthquake Testing of Rainscreen Stucco Wall Systems for B.C. Residential Wood Frame Construction This project looks at the performance of a stucco rainscreen wall assembly in an earthquake situation with testing conducted at a seismic research facility at the University of British Columbia.	**$10,000**	$75,000	Canada Mortgage and Housing Corporation (CMHC), BC Housing	Underway. Preliminary findings and recommendations regarding attachment and fastening issues are included in CMHC's 2001 Best Practices Guide update.
Research Consortium for External Moisture Control: Defining Performance of Water Resistive Barriers This project involves studying various aspects of sheathing membrane (water resistive barrier) performance.	**$20,000**	$120,000	Canada Mortgage and Housing Corporation (CMHC), HAL Industries, Concordia University, Fortifiber Corporation, Dupont Inc.	Underway
Performance Monitoring of Rainscreen Wall Assemblies This project involves measuring and monitoring the performance of new and remediated rainscreen wall assemblies within low and high-rise residential buildings.	**$35,000**	$238,000	BC Housing, Canada Mortgage and Housing Corporation (CMHC)	Underway
List of Construction Programs The purpose is to compile a comprehensive list of construction programs and courses available by other organizations in the province.	**In house**	n/a	n/a	Underway. The HPO is working with organizations involved in training to establish Web site links to these organizations from the HPO Web site.
	TOTAL	**$105,000**	$668,000	

* Total project cost may vary slightly.

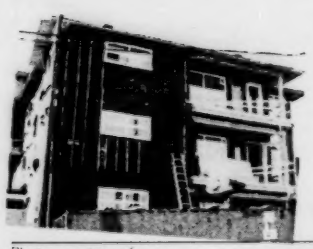


Photo courtesy of
RDH Building Engineering Ltd.

Completed Building Science Projects April 1, 2001 – March 31, 2002

Project/Description	HPO Financial Contribution	Total Project Cost *	Partners	Status & Additional Info
Building Envelope Solutions: Theory and Practice (B.E.S.T. Practice) Formerly called the Builder's Toolbox, this course provides information to the building industry on the construction of durable wood frame buildings in B.C.'s coastal climate.	**$52,000**	$142,000	Canada Mortgage and Housing Corporation (CMHC), Canadian Home Builders' Association of BC (CHBA BC)	Completed. Courses began at BCIT in January 2002.
Study of High-rise Envelope Performance in the Coastal Climate of B.C. This study identifies factors contributing to envelope performance problems and successes in high-rise buildings, and provides recommendations for addressing identified issues.	**$32,500**	$75,000	Canada Mortgage and Housing Corporation (CMHC), City of Vancouver	Completed in October 2001.
Building Envelope Research Symposium B.C.'s first building envelope research symposium disseminated recent research results to the industry.	**$10,000** (seed funding)	$20,000 (seed funding)	Canada Mortgage and Housing Corporation (CMHC), Urban Development Institute (UDI), BC Building Envelope Council (BC BEC), Building Envelope Research Consortium (BERC)	Completed in October 2001.
TOTAL	**$ 94,500**	$ 237,000		* Total project cost may vary slightly.
TOTAL 2001-2002 Projects completed, on-going and underway	**$199,500**	$ 905,000		

Performance Measures and Reports as of March 31, 2002

Goals / Objectives	Performance Measures	Targets	2001-2002 Results
Research and education projects are planned and managed in partnership with the residential construction industry	HPO facilitates and expands research and education partnerships	At least twice the amount invested by the HPO is invested in these research projects by other partners	This year the HPO committed $199,500 to building science research and education projects. Our partners committed an additional $705,500 to these projects for a total financial commitment of $905,000.
Industry and consumers have access to research results and improved technology	Research results disseminated	During each two-year cycle, the HPO participates in one major symposium or publication and twelve educational sessions	The HPO and its partners presented B.C.'s first Building Envelope Research Symposium in October 2001. The Building Envelope Solutions: Theory and Practice courses are also now available at BCIT.
Building science research projects will help set the framework for improvements in residential construction	Research results incorporated into building standards and best practices	HPO participates on National Building Code committees and in the development of best practice guides and training courses	The HPO's Acting Director of Research and Education participates on the following committees: • National Building Code Committee • National Building Code Standing Committee - Part 9, Housing and Small Buildings • National Building Code Standing Committee - Part 5, Environmental Separation • CHBA National Technical Research Committee • CHBA BC Education and Training Committee • CHBA BC Technical Research Committee

research results and improved

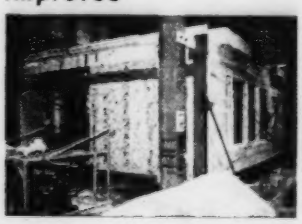


Photo courtesy of TBG Seismic Consultants Ltd.

Bob Maling, Director of Licensing and Registrar and Acting Director of Research and Education

Mandate

The Homeowner Protection Office (HPO) is responsible for licensing residential builders and building envelope renovators as well as monitoring the mandatory, third-party home warranty insurance system in British Columbia. These consumer protection measures help ensure that builders meet minimum standards and homebuyers province-wide are protected by a standard insurance product. Over the long-term, licensing and warranty insurance requirements will help prevent the likelihood of future, large-scale construction failures such as the leaky condo situation.

As of July 1, 1999, residential builders must be licensed by the HPO and arrange for home warranty insurance in order to obtain a building permit. In geographic areas where building permits are not required, licensing and warranty insurance must be in place prior to the commencement of construction. Similar regulations for repair contractor licensing and mandatory warranty insurance were brought into force for building envelope renovations on September 30, 2000. A registry of licensed residential builders and building envelope renovators is updated daily on the HPO Web site.

The mandatory home warranty insurance can only be provided by insurance companies which are approved by the provincial Financial Institutions Commission and meet the requirements of the *Homeowner Protection Act (Act)* and regulations. Currently, home warranties are offered by the following insurance companies:

- Commonwealth Insurance represented by Willis Canada *+
- Kingsway Insurance represented by Residential Warranty Insurance Services Ltd. *+
- London Guarantee Insurance Company *+
- Royal & SunAlliance represented by National Home Warranty Programs *
- Royal & SunAlliance represented by Marathon Warranty Corporation*+

* indicates the companies that offer home warranty insurance for new residential construction.

\+ indicates the companies that offer home warranty insurance for building envelope renovations.

Minimum coverage and allowed specific exclusions for home warranty insurance are set by legislation. For new home construction, coverage must include two years on labour and materials, five years on the building envelope, including water penetration, and ten years on structure (2-5-10). Some insurance companies offer coverage above and beyond these minimum requirements.

home warranty

insurance

Images courtesy of RDH Building Engineering Ltd.

For building envelope renovations subject to the *Homeowner Protection Act* regulations, minimum home warranty insurance coverage includes two years on labour and materials. If more than 60% of any wall is replaced, a five-year water penetration warranty is also provided. This two-tiered approach to warranty insurance allows for targeted repairs when appropriate.

In April 2001, enabling legislation was also passed which allowed the HPO to license strata managers. The development of this licensing system has been on hold pending the results of the provincial government's Core Services Review process.

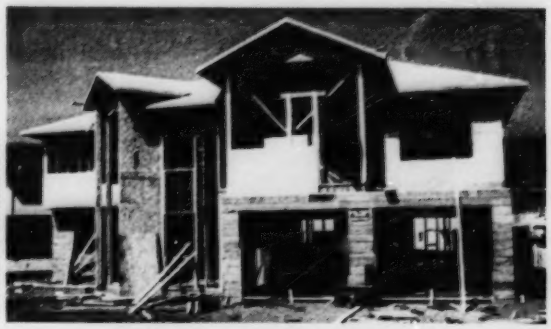


Photo courtesy of TBG Seismic Consultants Ltd.

Licensing and Warranty Insurance Activity

This year has brought increased optimism for the future of the residential construction industry. Attractive mortgage rates have both decreased the supply of the existing housing inventories as well as re-ignited the demand for housing starts.

As of the annual report date, there were 2,881 residential builders licensed with the HPO. This number represents an increase of 583 licences or 25% when compared to last year. Licence renewals continued to be strong over the last year. There were also 74 building envelope renovators licensed with the office on March 31, 2002.

This year's increase in the number of licences exceeded our forecasts. Even with this higher than anticipated level of licensing activity, we were 100% consistent in our goal to make decisions on completed licensing applications within a five-day period. In fact, decisions for over 97% of all licensing applications were made in three days or less.

This year, 19,042 new homes were started. In total 38,862 new homes in the province of British Columbia now satisfy the consumer protection requirements of the *Homeowner Protection Act*.

Compliance Update

The Homeowner Protection Office added five more full-time compliance officers this year. This addition brought the total number of compliance officers who conduct on-site visits province-wide to nine, in addition to the compliance staff located at the HPO office in Vancouver. *(Please see the compliance territory map on page 14.)*

Our compliance investigations have resulted in 147 additional builders becoming licensed to voluntarily comply with the *Homeowner Protection Act*. These builders have enrolled 197 projects in warranty insurance and plan to enroll an additional 377 projects over the next fiscal year. Obtaining voluntary compliance with the *Act* is the quickest and preferred way to protect consumers and encourage fair competition in the residential construction industry.

Our increased compliance staff combined with a more stringent screening process of potential owner-builders has resulted in decreased abuse of the owner-builder exemption (which allows a person to build their own detached home for their own use without having to be licensed or purchase home warranty insurance for themselves). Owner-builder exemptions declined to 11% of all new home starts this year from about 18% in the previous year.

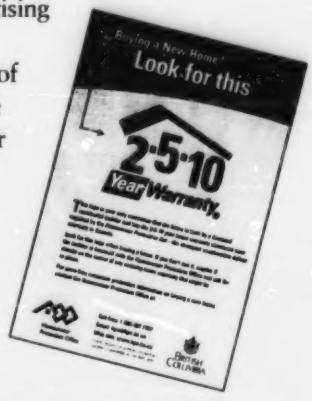
compliance staff

Homebuyer Awareness

The real estate market is still in a transition period. Some new homes on the market are constructed under the consumer protection regulations of the *Homeowner Protection Act*—built by a licensed residential builder and has the mandatory, third-party home warranty insurance. However, other homes built before these regulations were in place might have a variety of different warranties, or no warranties at all.

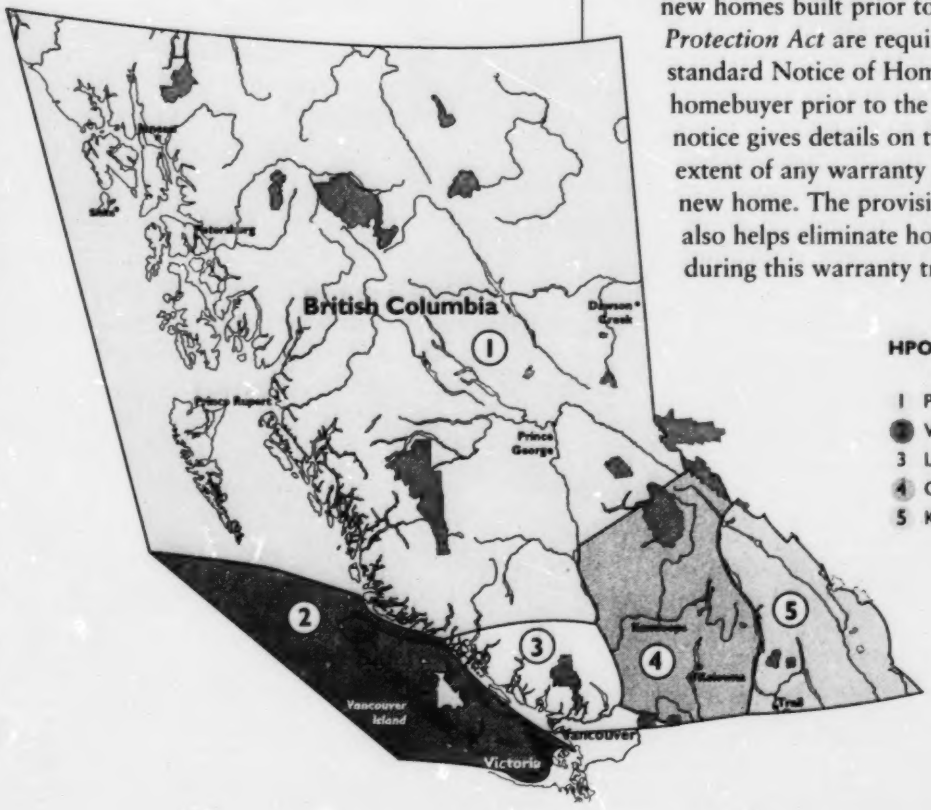
The HPO continues to assist homebuyers identify new homes that are built by Licensed Residential Builders and have the minimum 2-5-10 year home warranty insurance now required by law. Last year, the HPO introduced a standard 2-5-10 year logo which can only be used by Licensed Residential Builders who sign a logo licensing agreement with our office. Currently, there are 756 Licensed Residential Builders authorized to use this special logo.

Licensed Residential Builders use the 2-5-10 year logo to identify their new homes that meet the requirements of the *Homeowner Protection Act*. The HPO also commenced a province-wide advertising campaign to increase homebuyer awareness of the logo. We encourage homebuyers to look for the 2-5-10 logo. If they do not see it, they should ask if the builder is licensed by the HPO and if the home has warranty insurance provided by one of the insurance companies listed on page 12.



Homebuyers should look for the standard 2-5-10 year logo

The HPO also continues to enforce the Notice of Home Warranty regulation. Vendors of new homes built prior to the *Homeowner Protection Act* are required to provide a standard Notice of Home Warranty to the homebuyer prior to the purchase. This notice gives details on the nature and extent of any warranty provided on the new home. The provision of this notice also helps eliminate homebuyer confusion during this warranty transition period.



HPO compliance territories

1 Prince George and Area
2 Vancouver Island
3 Lower Mainland
4 Central Interior
5 Kootenays

Residential Construction Stats: as of March 31, 2002

	2002	2001	
Number of Licensed Residential Builders	2,881	2,298	
Number of Licensed Building Envelope Renovators	74	71	
New Home Starts:	**2001-2002**	**2000-2001**	**Cumulative:** July 1, 1999-March 31, 2002
Coastal Multi-Unit Dwelling (number of units)[1]	6,496	3,524	10,795
Other Dwellings (number of units)[2]	9,793	7,018	20,082
Owner-Builder Exemptions	2,060	2,504	6,050
HPO Warranty Exemptions (multi-unit)	693	892	1,935
Total New Homes Under the *Homeowner Protection Act*	**19,042**	13,938	**38,862**

1. Units built in the coastal climate zone which attract a $750 reconstruction fee and a $25 HPO licensing fee.
2. Includes detached dwellings throughout B.C. as well as multi-unit dwellings outside of coastal climate zone, which attract only the $25 per unit HPO licensing fee.

Building Envelope Renovations ($25/unit HPO licensing fee)	**6,788**	614	**7,402**

Performance Measures and Report: as of March 31, 2002

Goal/Objective	Performance Measure	Target	2001-2002 Results
Homeowners are protected by warranty insurance on their homes	Homeowner satisfaction	High percentage of homeowners satisfied with protection provided by their warranty insurance	Baseline data to be collected in 2002-2003
Improvement in the quality of residential construction	Homes built under the *Homeowner Protection Act* are of good quality	Low percentage of homes with warranty insurance claims	Baseline data to be collected in 2002-2003
Creation of a more "level playing field" for residential builders	Residential builder compliance with the *Homeowner Protection Act*	70% of investigations result in voluntary compliance	Baseline data to be collected in 2002-2003
Responsive licensing system for residential builders and building envelope renovators	Timeliness of licensing decisions	5 business days for licensing decisions on complete applications	All licensing decisions were made in under 5 days. 97% of licensing decisions were made in 3 days or less.
Increased awareness of consumer protection issues	Homebuyer awareness of licensing and warranty insurance requirements	High level of awareness of licensing and warranty insurance program among new home buyers	Baseline data to be collected in 2002-2003

of consumer protection issues

The Homeowner Protection Office (HPO) provides financial assistance to owners of leaky homes in the form of the Homeowner's Reconstruction Loan and the PST Relief Grant.

Each owner's individual financial circumstances determine their eligibility for a no-interest loan.

Homeowner's Reconstruction Loan Program

The Homeowner's Reconstruction Loan Program was established to ensure that owners do not have to lose their homes due to the cost of building envelope repairs. This financial assistance program consists of a no-interest repair loan. The loan is available to owners of condominiums, townhouses, detached homes as well as housing co-operatives that are not able to finance or pay for the necessary repairs.

Most homeowners are eligible for the no-interest repair loan if they:

- own a leaky home where the building envelope has deteriorated sooner than expected
- do not have savings or investments that could be used to pay for repairs (Homeowners are not required to cash in their RRSPs, pension assets or the first $10,000 in liquid assets to qualify. Seniors age 60 years or older can have $250,000 in liquid assets and still qualify.), and
- do not have enough equity in their home to qualify for a conventional loan or they can not afford the monthly payment on conventional loan.

This year the HPO approved 1,584 homeowner loans representing $43.6 million. Since the HPO's inception three and one-half years ago, 6,862 homeowner loans have been approved totaling $158.6 million in financial assistance. The average loan amount is about $23,100.

Over the year, the HPO also approved an additional six housing co-operative loans representing another 418 units totalling $13.6 million in no-interest repair loans. Since 1999 when housing co-operatives became eligible for the Reconstruction Loan Program, 32 loans representing 1,848 homes and $57.7 million in financial assistance has been approved.

In total to date, $216.3 million in financial assistance has been approved for owners of 8,710 leaky homes *(see loan statistics on page 18)*.

The loans cover both the cost of the repair and any related legal expenses. In most cases the homeowner's lending institution provides the principal on the loan. The HPO pays the interest on the loan to the lending institution on behalf of the owner. The homeowner makes monthly, principal-only payments on the loan to their lending institution. These payments are set at affordable levels by an HPO loans officer through individual consultations with the homeowner.

In some cases, the Homeowner's Reconstruction Loan minimum payment of $50 is not affordable, in particular for seniors on fixed incomes. In these circumstances a deferred payment loan can be arranged which allows homeowners to receive the full amount required to repair their homes and they do not have to make payments of any kind for as long as they live in the home. Deferred payment loans represent 11% of homeowner loans approved by the HPO totaling over $18 million in financial assistance.

repair solutions

Long-term Repair Solutions

To ensure that HPO Reconstruction Loan funds are used for appropriate long-term repair solutions, homeowners must prove that the proposed repair meets the requirements of the consumer protection regulations for building envelope renovations.

These repairs must be performed by an HPO licensed building envelope renovator who arranges for home warranty insurance on their work. Proof of licensing and warranty is confirmed by an HPO Building Envelope Renovation Schedule which is completed by a building envelope consultant and given to the owners prior to obtaining a building permit or commencing construction in geographic areas where building permits are not required.

Loan Program Funding

The provincial government provides bridge financing for the Reconstruction Loan Program. As of March 31, 2002, the HPO had borrowed $23.2 million from the province for the program's current cash requirements. The HPO will repay this loan to the province through the collection of a $750 levy on the construction of new multi-unit homes in the coastal climate area which includes the Lower Mainland, the southern part of Vancouver Island and the Sunshine Coast.

In 2000 the Government of Canada, through the Canada Mortgage and Housing Corporation, agreed to provide a contribution of $27.7 million as the loan program incurs expenditures. Since 2000, the HPO has received $16.3 million from the federal government for loans program expenditures. This federal contribution amounts to about 26% of the total program expenditures which are expected to reach $108 million.

Peak Reached for Loans Applications

The HPO estimates that about 65,000 homes in B.C. have been affected by premature building envelope failure which involves a corresponding repair bill of $1.5 billion.

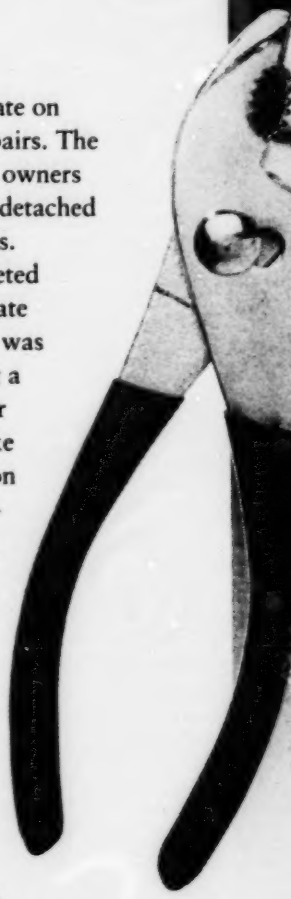
This estimate takes into account that loan applications received from owners in high-rise buildings will likely take place later in the life of the loans program when compared to homes made with wood frame construction. This delay occurs because it takes longer for building envelope problems to emerge in high-rises (e.g. corrosion of steel studs) when compared to wood frame homes (e.g. wood rot).

The demand for new Reconstruction Loans hit a peak in 2000-2001 indicating that we have likely reached the halfway mark in the number of homeowners who will apply for no-interest repair loans over time *(see the Trends in Demand for New Reconstruction Loans and PST Relief Grants graph on page 19)*. However, the HPO estimates that about 25,000 homes affected may have not yet commenced repairs on their homes. Therefore, the need for the Reconstruction Loan Program is expected to continue.

PST Relief Grant

The HPO administers a PST rebate on completed building envelope repairs. The PST Relief Grant is available to owners of condominiums, townhouses, detached homes and housing co-operatives. Eligible repairs are those completed on or after July 28, 1998, the date the *Homeowner Protection Act* was passed. Owners can also submit a PST Relief Grant application for completed phased repairs. Unlike the Homeowner's Reconstruction Loan Program, owners in strata-titled condominiums and housing co-operatives submit one application as a group.

This year, an additional 103 applications representing 5,644 homes were approved for PST Relief Grants totaling $2.2 million.



Since the PST Relief Grant was introduced in 1999, $4.4 million dollars in grants to owners in 11,274 homes has been approved. The average grant per home is $394.

Generally, about 40% of all building envelope repair costs are subject to PST which is now charged at a rate of 7.5%. Funds for the PST Relief Grant are provided by the provincial government. An estimated $47 million in financial assistance will be provided to owners of leaky homes over the life of this program.

The increased number of PST Relief Grants approved each year indicates that more and more homeowners are completing their building envelope repairs. This situation is also an indication that the demand for the Reconstruction Loan Program might continue to decrease over time *(see the Trends in Demand for New Reconstruction Loans and PST Relief Grant graph on page 19).*

programs

Homeowner's Reconstruction Reconstruction Loan Program:
as of March 31, 2002

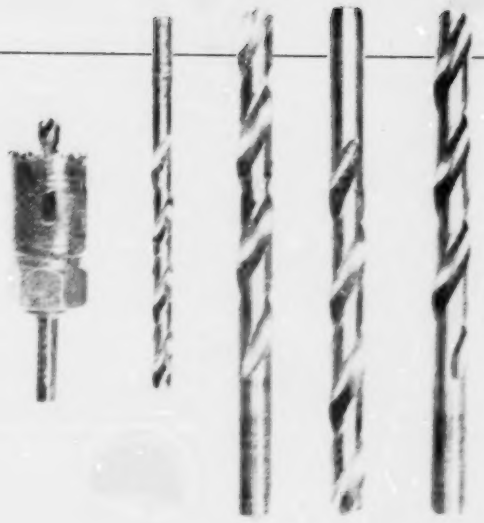
Applications	2001-2002 Number	2000-2001 Number	Cumulative Totals 1998-2002 Number	% of Total*
Applications received	2,067	3,349	8,636	
Applications approved	1,584	2,958	6,862	79.5%
Applications not meeting eligibility criteria or withdrawn	559	626	1,594	18.5%

*About 2% of loans applications are pending decisions at any given time.

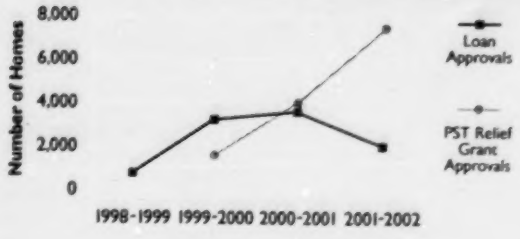
Approvals	2001-2002 Number	2001-2002 Amount	2000-2001 Number	2000-2001 Amount	Cumulative Totals 1998-2002 Number	Cumulative Totals 1998-2002 Amount	Cumulative Totals 1998-2002 Average/Unit
No-interest loans through first-mortgage lender	1,096	$29,987,304	2,271	$51,243,113	5,230	$117,576,593	$22,481
No-interest loans through the HPO	179	$5,343,968	523	$14,021,273	865	$22,867,383	$26,436
Deferred Payment Loans through the HPO	309	$8,295,175	164	$3,377,030	767	$18,128,807	$23,636
Total	1,584	$43,626,447	2,958	$68,641,416	6,862	$158,572,783	$23,109

Housing Co-operative Loan Approvals	2001-2002 Number	2000-2001 Number	Cumulative Totals 1999-2002 Number	Cumulative Totals 1999-2002 Average per Co-op
Applications approved	6	11	32	$1,804,269
Number of units represented	419	661	1,848	Average per Unit
Amount	$13,637,900	$18,214,000	$57,736,600	$31,243

for loans and grants



Trends in Demand for New Reconstruction Loans and PST Relief Grants



PST Relief Grant Summary: as of March 31, 2002

Applications Received by Housing Type			1999-2002
Condominium/Apartment			91%
Townhouse			6.6%
Single-family dwelling			0.7%
Other			1.5%
Applications Approved	**2001-2002**	2000-2001	**Cumulative 1999-2002**
Number of applications approved	**103**	105	**250**
Number of homes represented	**5,644**	3,930	**11,274**
Amount Approved			
Total amount of approved grants	**$ 2,211,808**	$ 1,455,309	**$ 4,443,221**
Average grant amount per application			**$ 17,773**
Average grant per home			**$ 394**

Performance Measures and Reports: as of March 31, 2002

Goal/Objective	Performance Measure	Target	2001-2002 Results
Provide financial assistance to help homeowners avoid foreclosures due to the cost of building envelope repairs	Homeowners with loans do not lose their homes	Default rate of 4% or less for homeowners with loans	Default rate is 0.8%
Value of homes will increase accordingly once homes are repaired	Assessed values of repaired homes increase	Assessed values of homes increase following completion of repairs	Baseline data to be collected in 2002-2003

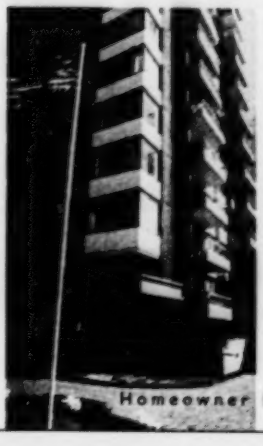


Photo courtesy of RDH Building Engineering Ltd.

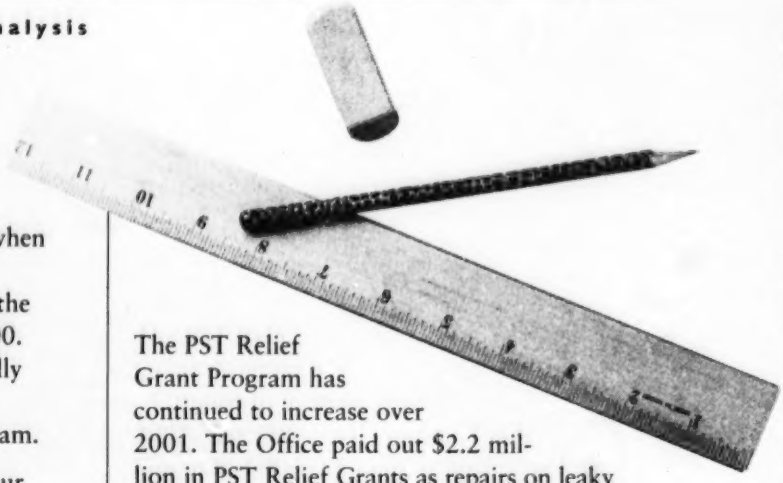
target results performance

For the year ended March 31, 2002, the HPO's net loss was $483,000 as compared to its net income of $62,000 in the previous year. However, when the results are considered excluding the Reconstruction Program, net income for the year ended March 31, 2002 was $284,000. We have met our objective to be financially self-sustaining on a year-over-year basis, excluding the Reconstruction Loan Program.

During the year ended March 31, 2002 our license fees collected increased to $2.1 million, a 32% increase over the previous year. Similarly, the collection of the Reconstruction Levy on the construction of multi-unit homes in B.C.'s coastal climate zone increased to $4.9 million, which is an 84% increase over the previous year. This increase is a result of the significant growth in new home construction, in particular, in the multi-unit sector. In addition, the number of licensed residential builders has increased over the prior year.

Two of the main factors leading to the increases in housing starts and licensed builders were the depletion of inventory of new homes offered for sale and the lowest mortgage rates in forty years. The housing starts outlook for next year remains positive, particularly in the multi-unit sector which we expect will increase by 20% bringing total multi-unit starts to 8,400 homes in the coastal climate zone.

Reconstruction Program expenditures increased by 25% to a total of $14.7 million. This increase was principally the result of a higher interest subsidy paid to financial institutions on behalf of owners of leaky homes and a higher loan grant expense from the funding of more loans. We believe the Reconstruction Program expenditures reached their peak this year and will now begin to decline as fewer new loan applications are received.



The PST Relief Grant Program has continued to increase over 2001. The Office paid out $2.2 million in PST Relief Grants as repairs on leaky homes were completed. This compares to $1.5 million in PST Relief Grants that were paid out in the previous year. This increasing trend is expected to continue into next year as more of the leaky condos have their repairs completed.

The Research and Education program had expenditures of $245,000 in the year ended March 31, 2002. This has decreased from the prior year when our expenditures were $304,000. However, we have met our objective to leverage our contribution by having our partners invest at least twice the amount committed by the Homeowner Protection Office.

This year has been one of continued growth and demand for all programs as the residential construction sector begins to recover, new knowledge regarding construction quality is disseminated to the industry and more homes with premature building envelope failures are repaired.

discussion

and analysis

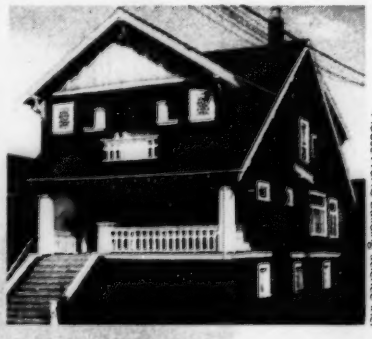


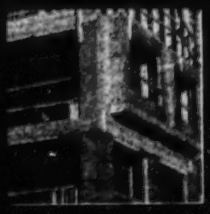
Photo courtesy of HouseWorks Building Science Inc.

B U I L D I N G B C

Homeowner
Protection Office

March 31 | 2002

Financial Statements



RESTORING CONFIDENCE

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financial statements

Report of the Auditor General of British Columbia

To the Board of Directors
of the Homeowner Protection Office, and

To the Minister of Community, Aboriginal
and Women's Services and Minister Responsible for Housing,
Province of British Columbia

I have audited the balance sheet of the *Homeowner Protection Office* as at March 31, 2002 and the statement of revenues and expenditures and deficit and the statement of cash flows for the year ended March 31, 2002. These financial statements are the responsibility of the Office's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the *Homeowner Protection Office* as at March 31, 2002 and the results of its operations and its cash flows for the year ended March 31, 2002, in accordance with Canadian generally accepted accounting principles.

Wayne Strelioff

Victoria, British Columbia
April 19, 2002

Wayne Strelioff, CA
Auditor General

HOMEOWNER PROTECTION OFFICE

Statement of Management Responsibility

The financial statements of the Homeowner Protection Office (the "Office") have been prepared by management in accordance with Canadian generally accepted accounting principles, consistently applied and appropriate in the circumstances. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in the notes to financial statements.

Management depends upon a system of internal controls that provide reasonable assurance, on a cost-effective basis, that the financial information is reliable and accurate. The Office's external auditors independently perform such tests of the system of internal controls as they consider necessary for the purpose of expressing their opinion on the financial statements.

The Audit and Finance Committee, which is comprised of directors who are not employees, oversees management's discharge of its financial reporting responsibilities. The committee meets periodically with management and the external auditors to discuss auditing, financial reporting and internal control matters. The external auditors have access to the Audit and Finance Committee without management's presence.

Dan Maxwell
Acting Chief Executive Officer

Virginia Watson
Manager, Accounting

April 19, 2002

HOMEOWNER PROTECTION OFFICE

Balance Sheet
As at March 31, 2002

	2002 ($000's)	2001 ($000's)
ASSETS		
CURRENT ASSETS		
Cash	$ 353	$ 198
Cash for reconstruction and PST programs	4,238	2,140
Due from Province of British Columbia (note 4)	26	28
Due from CMHC (note 1)	96	405
Accounts receivable	916	38
Prepaid expenses	42	37
Current portion of loans receivable	1,240	721
	6,911	3,567
LOANS RECEIVABLE (note 3)	15,266	8,260
CAPITAL ASSETS (note 5)	275	329
	$ 22,452	$ 12,156
LIABILITIES AND DEFICIT		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 530	$ 448
Loss provision for CMHC-insured loans (note 2d)	3,544	2,421
Due to Province of British Columbia (note 6)	24,849	15,275
	28,923	18,144
CONTINGENCIES (note 2d)		
COMMITMENTS (note 7)		
DEFICIT	(6,471)	(5,988)
	$ 22,452	$ 12,156

Approved by the Board:

Chair

Member

The accompanying notes are an integral part of these financial statements.

HOMEOWNER PROTECTION OFFICE

Statement of Revenues and Expenditures and Deficit

For the year ended March 31, 2002

	2002 ($000's)	2001 ($000's)
Revenues		
Federal contributions for Reconstruction Program	$ 7,298	$ 9,022
Reconstruction levies	4,872	2,643
Provincial contributions	2,932	1,580
License fees	2,114	1,601
Loan discount recoveries	1,659	571
Interest	133	216
Donations and other	8	1
	19,016	15,634
Expenditures		
Reconstruction Program	14,690	11,967
PST Relief Grant Program	2,278	1,575
Licensing and registrar	1,773	1,155
Finance and administration	513	571
Research and education	245	304
	19,499	15,572
(Loss) Income (Schedule 1)	(483)	62
Deficit, beginning of year	(5,988)	(6,050)
Deficit, end of year	$ (6,471)	$ (5,988)

The accompanying notes are an integral part of these financial statements.

HOMEOWNER PROTECTION OFFICE

Statement of Cash Flows

For the year ended March 31, 2002

	2002 ($000's)	2001 ($000's)
Cash flows from Operating Activities		
Cash received from:		
Government of Canada for Reconstruction Program	$ 7,607	$ 8,617
Residential builders for reconstruction levies	4,047	2,724
Province of British Columbia for programs	2,932	1,580
Homeowners for principal-only payments on loans	2,466	736
Residential builders for license fees	2,057	1,608
Interest	143	229
Partners in funding research and education activities	8	26
Cash paid to:		
Homeowners for reconstruction loans	(15,934)	(12,224)
Financial institutions for interest on CMHC-insured loans	(3,692)	(2,380)
Suppliers and employees	(3,320)	(2,867)
Homeowners for PST Relief Grants	(2,182)	(1,455)
Province of British Columbia for loan interest	(811)	(870)
Financial institutions for defaults on CMHC-insured loans	(609)	(482)
Cash flows used in operating activities	(7,288)	(4,758)
Cash flows from Investing Activities		
Purchase of capital assets	(116)	(177)
Cash flows used in investing activities	(116)	(177)
Cash flows from Financing Activities		
Province of British Columbia for PST program	10	64
Proceeds from borrowing	9,647	5,197
Cash flows from financing activities	9,657	5,261
Net Increase in Cash	2,253	326
Cash, beginning of year	2,338	2,012
Cash, end of year	$ 4,591	$ 2,338
Represented by:		
Cash	353	198
Cash for reconstruction and PST programs	4,238	2,140
	$ 4,591	$ 2,338

The accompanying notes are an integral part of these financial statements.

1. General

The Homeowner Protection Office (the "Office") was created in 1998 under the *Homeowner Protection Act* S.B.C. 1998, c. 31 (the "*Act*"). The purposes of the Office are:

- to license residential builders and other persons required to be licensed under the *Act*;
- to carry out research and education respecting residential construction in British Columbia; and
- to administer the Reconstruction Program to provide financial assistance to eligible homeowners for home reconstruction.

Effective July 1, 1999, all persons who wish to carry on the business of a residential builder in British Columbia must obtain a licence from the Office's Registrar. Effective October 1, 2000, repair contractors who wish to perform specified building envelope renovations in British Columbia must obtain a licence from the Office's Registrar. The license fees collected fund all of the operations of the Office except for the Reconstruction and Provincial Sales Tax Relief Grant Programs. The Province provides a contribution to the Office to fund a portion of the costs of ensuring compliance with the *Act*. The research and education function has a mandate to disseminate information to the residential construction industry and to homeowners in areas such as cost effective building techniques, best practices for retrofitting housing, building code changes and consumer education.

The Reconstruction Program provides subsidized interest loans, no-interest loans and deferred payment loans to owners of homes with premature building envelope failure who are not able to finance or pay for repairs. A reconstruction levy is collected on residential units in multi-unit buildings constructed after July 1, 1999 in the coastal climatic zone. The Government of Canada through the Canada Mortgage and Housing Corporation (CMHC) provides a contribution to the Reconstruction Program equal to fifty percent of the Reconstruction Program expenditures net of interest revenue. The total contribution from the Government of Canada will not exceed $27.7 million.

The Office also administers the Provincial Sales Tax (PST) Relief Grant Program on behalf of the Province. The Province provides a contribution to the Office to cover the administration costs and grant payments of the program.

The expenditures and revenues of these programs are reported in Schedule 1.

2. Significant Accounting Policies

The accompanying financial statements are prepared in accordance with Canadian generally accepted accounting principles that are considered appropriate for the Office. The significant accounting policies are noted below.

a) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Significant areas requiring the use of management estimates relate to the determination of the present value of loans receivable, loan loss provision, and amortization of capital assets. Actual results could differ from the estimates.

b) Capital assets

Capital assets are recorded at cost and amortized on a straight line basis over their estimated useful lives as follows:

Computer software and hardware	Three years
Leasehold improvements	Over the lease term
All other capital assets	Five years

Assets costing less than $1,000 are expensed in the year of purchase.

c) No-interest loans and deferred payment loans

No-interest loans and deferred payment loans provided by the Office are concessionary loans in that no interest is charged to the homeowner. These loans are recorded at their net present value (net of grant component) less any provision required for doubtful collection. Net present value is determined by discounting no-interest loans over their terms and discounting deferred payment loans over 20 years at the provincial borrowing rate for equivalent terms. Present value discounts are recorded as grant expense. Principal repayments are first applied to the reduced loan balance (net present value) and then recorded as revenue (loan discount recoveries) when received.

d) Loss provision for CMHC-insured loans

Loans provided by financial institutions under the Reconstruction Program do not appear on these financial statements. However, the Office has indemnified CMHC for any claims that may be made against the CMHC insurance on these loans up to $250 million. The Office records a 4% loan loss provision on these loans.

e) Federal and provincial taxes

The Office is exempt from corporate income taxes and is not subject to the Goods and Services Tax.

3. Reconstruction Program

Under the *Act*, money paid to the credit of the Reconstruction Program must only be used for the purposes of the program.

Under the Reconstruction Program, financial assistance is provided to homeowners who cannot afford to pay for repairs to their homes with premature building envelope failure. The financial assistance is secured by mortgages registered against the title of the home to be repaired. This financial assistance is provided in the form of subsidized interest loans, no-interest loans or deferred payment loans as follows:

a) Subsidized interest loans through the first mortgage lender

i) Homeowner

Under agreements with financial institutions and CMHC, the Office approves loans to homeowners for repairs to homes with premature building envelope failure and issues CMHC insurance certificates for these loans. The loan is advanced by the financial institution that holds a first mortgage on the property and, as a consequence, does not appear on these financial statements. The homeowner makes monthly principal-only payments to the financial institution. The Office pays interest on the homeowner's behalf to the financial institution at the prime rate of the lender. This interest is reported as interest subsidy on Schedule 1.

ii) Housing Co-operatives

Under an agreement with CMHC, the Office approves loans to housing co-operatives with premature building envelope failure. The loan is advanced by CMHC who is also the first mortgage lender. The housing co-operative makes a monthly principal-only payment to CMHC. The Office pays interest on the housing co-operative's behalf to CMHC. While the repairs are underway and prior to the interest adjustment date (IAD), the Office pays interest at CMHC's Construction Floating Rate. At IAD, the interest rate on a loan is set for an initial five-year term to equal the bid yield of a five-year Government of Canada benchmark bond with approximately five years remaining in its term plus not more than 0.75 percent per annum, compounded semi-annually not in advance. This benchmark is also used to set the interest rate for the second and final five-year term. This interest is included in interest subsidy on Schedule 1.

The Office has not provided guarantees or indemnities for any of the loans to housing co-operatives. The only obligation of the Office with respect to these loans is to pay interest. Consequently, neither the loans nor a provision for losses appear on the balance sheet of the Office.

b) No-interest loans through the Office

In cases where there is no first mortgage or where the first mortgage lender refuses to provide a loan, the Office provides a no-interest loan to the homeowner. The homeowner makes principal-only payments to the Office. Loans advanced directly by the Office are not CMHC insured. The present value of these loans is included in loans receivable on the balance sheet.

c) Deferred payment loans through the Office

In circumstances where eligible homeowners qualify for no-interest loans under the Reconstruction Program, but whose income is such that they cannot afford at least $50 per month as a principal-only loan payment, the Office may approve a deferred payment loan. Deferred payment loans do not accrue interest and do not require any payments to be made for as long as the homeowner lives in the home. If the net sales proceeds of the home, after repaying other mortgages in priority to the deferred payment loan and paying reasonable legal and real estate expenses, are not sufficient to fully repay the deferred payment loan then the shortfall will be forgiven. The present value of these deferred payment loans is included in loans receivable on the balance sheet.

As at March 31, 2002 the Office had approved financial assistance as follows:

	Number of Loans	Total Financial Assistance ($000's)	Financial Assistance Reported on the Balance Sheet of the Office ($000's)
Subsidized interest loans			
- Homeowners (note 3a(i))	5,230	$ 117,577	$ -
- Housing co-operatives (note 3a(ii))	32	57,737	-
No-interest loans (note 3b)	865	22,867	22,867
Deferred payment loans (note 3c)	767	18,129	18,129
Total loans approved	6,894	216,310	40,996
Less:			
Loans approved but not yet issued			
- Homeowners		(22,875)	(7,096)
- Housing co-operatives		(46,395)	-
Present value discount		(13,959)	(13,959)
Loss provision for CMHC-insured loans		(3,544)	-
Loan write-offs		(1,274)	(149)
Loan repayments		(15,533)	(3,286)
Loans receivable		$ 112,730	16,506
Less: current portion			(1,240)
Loans receivable			$ 15,266

The present value of the interest to be paid in the future by the Office on the subsidized interest loans is $38.5 million.

Loans were approved, but not issued in instances where strata corporations or housing co-operatives had not yet signed contracts for the repair of the building envelope or had not yet passed the final special assessment for the cost of the repairs.

The 32 housing co-operatives contain 1,848 homes.

4. Due from the Province of British Columbia

Under an agreement with the Province of British Columbia (the Province), the Office invests the balance of its overnight bank deposits in the Province's offset interest program. Approximately one month after the interest is earned, this program pays interest to the Office at the prime rate of the Royal Bank of Canada less 1.75%.

5. Capital Assets

	March 31, 2002 ($000's)			March 31, 2001 ($000's)
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer software	$ 150	$ (132)	$ 18	$ 34
Computer hardware	221	(173)	48	38
Office furniture and equipment	294	(198)	96	141
Leasehold improvements	183	(88)	95	116
Vehicles	22	(4)	18	-
Total	$ 870	(595)	$ 275	$ 329

6. Due to the Province of British Columbia

The Office has the authority to borrow up to a maximum of $75 million from the Province to fund operations and the Reconstruction Program. The Office's Board of Directors has approved borrowing to a maximum of $30 million.

Of the $24.8 million borrowed by the Office, $6.5 million is due April 3, 2002 with interest accrued at 1.77% per annum, $12.3 million is due on May 14, 2002 with interest accrued at 1.90% per annum and $6.0 million is due on September 3, 2002 with interest accrued at 2.17%.

7. Commitments

The Office is committed in the normal course of business to paying interest on homeowners' behalf to financial institutions at the prime rate of the lender.

The Office has minimum rental obligations under operating leases for office space as follows:

Fiscal Year	($000's)
2003	$ 254
2004	$ 257
2005	$ 216
2006	$ -
Total	$ 727

8. Related Party Transactions

In the normal course of operations the Office acquired goods and services from the Province and certain Crown corporations, under prevailing trade terms.

9. Employee Benefit Plans

The Office has a defined benefit plan and a defined retirement plan for all of its employees. In addition, the Office has defined health care plans for all employees and retirees.

The Office and its employees contribute to the Public Service Pension Plan in accordance with the *Public Sector Pension Plans Act*. The British Columbia Pension Corporation administers the Plan, including the payment of pension benefits on behalf of employers and employees to whom the *Act* applies. The Plan is a multi-employer defined benefit plan. The most recent actuarial valuation (March 31, 1999) has determined the Plan is in a surplus position. Effective January 1, 2001, the Public Service Pension Plan's management changed to a joint trusteeship whereby the management, risks and benefits are shared between employees and employers. Previously these matters were the sole responsibility of the Province of British Columbia.

Employees are also entitled to specific health care and termination benefits as provided for under collective agreements and terms of employment.

Defined contribution plan accounting is applied to these benefit plans as the Office has insufficient information to apply defined benefit plan accounting. As such, the cost of employee future benefits for these plans is recognized as an expense in the year contributions are paid.

HOMEOWNER PROTECTION OFFICE

Schedule 1

Revenues and Expenditures by Program

For the year ended March 31, 2002

	Reconstruction Program		PST Relief Grant Program	
	2002 ($000's)	2001 ($000's)	2002 ($000's)	2001 ($000's)
Revenue				
Federal contributions	$7,298	$ 9,022	$ 0	$ 0
Reconstruction levies	4,872	2,643	0	0
Provincial contributions	0	0	2,307	1,580
License fees	0	0	0	0
Loan discount recoveries and other	1,659	571	0	0
Interest	94	171	11	20
	13,923	12,407	2,318	1,600
Expenditures				
Reconstruction loan grants	7,605	5,613	0	0
Interest subsidy	3,559	2,380	0	0
PST Relief Grants	0	0	2,182	1,455
Salaries and wages	627	633	67	84
Loss provision on CMHC-insured loans	1,766	2,131	0	0
Interest expense	655	714	0	1
Travel, office and other	196	177	10	12
Rent and utilities	93	85	11	11
Legal and professional fees	110	109	1	1
Amortization	51	66	6	9
Communications and printing	28	59	1	2
Research studies	0	0	0	0
Consumer and Industry Education	0	0	0	0
	14,690	11,967	2,278	1,575
Income (Loss)	$ (767)	$ 440	$ 40	$ 25

HOMEOWNER PROTECTION OFFICE

Schedule 1

Revenues and Expenditures by Program

For the year ended March 31, 2002

Licensing & Registrar		Finance & Administration		Research & Education		Total	
2002 ($000's)	2001 ($000's)	2002 ($000's)	2001 ($000's)	2002 ($000's)	2001 ($000's)	2002 ($000's)	2001 ($000's)
$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 7,298	$ 9,022
0	0	0	0	0	0	4,872	2,643
625	0	0	0	0	0	2,932	1,580
1,571	1,003	543	598	0	0	2,114	1,601
4	0	0	0	4	1	1,667	572
19	14	7	8	2	3	133	216
2,219	1,017	550	606	6	4	19,016	15,634
0	0	0	0	0	0	7,605	5,613
0	0	0	0	0	0	3,559	2,380
0	0	0	0	0	0	2,182	1,455
958	546	344	339	85	96	2,081	1,698
0	0	0	0	0	0	1,766	2,131
49	64	18	37	6	14	728	830
362	235	69	92	13	18	650	534
142	79	47	46	14	16	307	237
75	89	4	10	21	16	211	225
80	61	25	35	8	13	170	184
107	81	6	12	12	19	154	173
0	0	0	0	61	85	61	85
0	0	0	0	25	27	25	27
1,773	1,155	513	571	245	304	19,499	15,572
$ 446	$ (138)	$ 37	$ 35	$ (239)	$ (300)	$ (483)	$ 62